

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Ishpeming Area Joint Wastewater Treatment	County Marquette
Fiscal Year End 12/31/07	Opinion Date 03/14/08	Date Audit Report Submitted to State 4-12-08	

We affirm that:

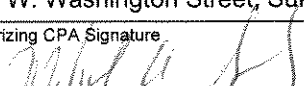
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☒ ☐ The local unit is free of repeated comments from previous years.
  - ☒ ☐ The audit opinion is UNQUALIFIED.
  - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman and Company, PLC		Telephone Number 906-225-1166		
Street Address 102 W. Washington Street, Suite 109		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 	Printed Name Michael Alan Greutz		License Number 1101027988	

**Ishpeming Area Joint Wastewater  
Treatment Facility  
Financial Statements  
For the Year Ended December 31, 2007**

## TABLE OF CONTENTS

Independent Auditors' Report .....	3
Management's Discussion and Analysis.....	5
Statements of Net Assets .....	8
Statements of Revenues, Expenses and Changes in Net Assets .....	9
Statements of Cash Flows .....	10
Notes to Financial Statements.....	11
Other Financial Information	
Schedule of Changes in Retained Earnings and Contributed Capital .....	19
Schedule of Expenses – Budget and Actual .....	20
Compliance Supplements	
Independent Auditors' Report on Compliance and Other Matters and on Internal Control Over financial reporting based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i> .....	25
Report to Management Letter .....	27



Anderson, Tackman & Company, PLC  
Certified Public Accountants  
Marquette, Michigan 906-225-1166  
Fax – 1-906-225-1714

Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

**INDEPENDENT AUDITORS' REPORT**

Authority Board  
Ishpeming Area Joint Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

We have audited the accompanying financial statements of the business-type activities and major fund of the Ishpeming Area Joint Wastewater Treatment Facility, as of and for the year ended December 31, 2007, which collectively comprise the basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ishpeming Area Joint Wastewater Treatment Facility's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and major fund of the Ishpeming Area Joint Wastewater Treatment Facility as of December 31, 2007, and the changes in financial position and cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2008 on our consideration of the Ishpeming Area Joint Wastewater Treatment Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Authority Board  
Ishpeming Area Joint Wastewater Treatment Facility

The management's discussion and analysis on pages 5 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Ishpeming Area Joint Wastewater Treatment Facility's basic financial statements. The Schedule of Changes in Retained Earnings and Contributed Capital and Schedule of Expenditures – Budget and Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Changes in Retained Earnings and Contributed Capital and Schedule of Expenditures – Budget and Actual have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

March 14, 2008

## Ishpeming Area Joint Wastewater Treatment Facility

### MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Ishpeming Area Joint Wastewater Treatment Facility's financial performance provides an overview of the Facility's financial activities for the year ended December 31, 2007. Please read it in conjunction with the financial statements, which begin on page 8.

#### FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$6,680,802. Nets assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$889,313, while revenues from all sources totaled \$868,979 resulting in a decrease in net assets of \$20,334.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

#### **Reporting the Facility as a Whole**

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's operating base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to participating municipalities to cover the cost of services it provides.

Table I provides a summary of the Facility's net assets as of December 31, 2007 and 2006.

Table 1 Net Assets		
	2007	2006
Current and other assets	\$1,853,919	\$2,008,252
Capital assets, net	4,938,518	4,857,435
Total Assets	6,792,437	6,865,687

**MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)** (Continued)

	<u>2007</u>	<u>2006</u>
Current liabilities	\$41,356	\$99,893
Non-current liabilities	<u>70,279</u>	<u>64,658</u>
Total Liabilities	<u>111,635</u>	<u>164,551</u>
Net Assets:		
Invested in capital assets	4,938,518	4,857,435
Restricted	1,742,284	1,843,701
Unrestricted	<u>-</u>	<u>-</u>
Total Net Assets	<u>\$6,680,802</u>	<u>\$6,701,136</u>

Net assets of the Facility's business-type activities stood at \$6,680,802. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$0.

The \$0 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2007 and 2006.

Table 2  
Changes in Net Assets

	<u>2007</u>	<u>2006</u>
Operating revenues:		
City and Township service revenues	\$627,101	\$553,582
Outside User service revenues	14,620	-
Lab service revenues	23,255	-
Reimbursements	<u>1,916</u>	<u>60,256</u>
Total Operating Revenues	<u>666,892</u>	<u>613,838</u>
Operating expenses:		
Inter-local Board	3,647	3,265
Operations	595,080	539,784
Depreciation	<u>290,586</u>	<u>298,535</u>
Total Operating Expenses	<u>889,313</u>	<u>841,584</u>
Income (loss) from operations	<u>(222,421)</u>	<u>(227,746)</u>
Non-operating Revenues (Expenses):		
City and Township capital revenues	71,862	61,087
Interest income	116,928	73,415
Gain (loss) on disposal of assets	<u>13,297</u>	<u>(2,835)</u>
Total Non-operating Revenues (Expenses)	<u>202,087</u>	<u>131,667</u>
Increase (decrease) in net assets	<u>(20,334)</u>	<u>(96,079)</u>
Net assets, beginning	<u>6,701,136</u>	<u>6,797,215</u>
Net Assets, Ending	<u>\$6,680,802</u>	<u>\$6,701,136</u>

The Facility's total revenues were \$868,979. The total cost of all programs and services was \$889,313, leaving a decrease in net assets of \$20,334 because of fiscal year 2007 operations.

## MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The net loss for the current year of \$(20,334) is the result of \$(198,387) in depreciation expense that is not recovered from City and Township revenues (the assets were paid by grants when the facility was built) combined with \$(12,100 Engineering Fees) and \$(75 Investment Fees) in operation and maintenance expenses that were paid from restricted capital improvement monies and not current year revenues. Conversely, there were \$71,862 in revenues from City and Township capital charges, \$115,831 interest and \$1,508 revenue for Capital and Sinking Funding, and \$1,027 in miscellaneous items.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### Capital Assets

At the end of fiscal 2007, the Facility had \$4,938,518 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

<b>Table 3</b>		
<b>Capital Assets</b>		
	<u>2007</u>	<u>2006</u>
Buildings	\$7,982,277	\$7,905,932
Equipment and furnishings	2,008,443	1,852,131
Vehicles	<u>170,787</u>	<u>170,787</u>
	10,161,507	9,928,850
Accumulated depreciation	<u>(5,222,989)</u>	<u>(5,071,415)</u>
Totals	<u>\$4,938,518</u>	<u>\$4,857,435</u>

The Facility purchased \$380,904 in a bar screen (\$226,700), pumps, equipment, etc (\$77,859) and facility upgrades wet well building (\$76,345) during the fiscal year. The Facility recorded \$290,586 in depreciation expense for the year, and disposed of equipment with a net book value of \$9,235.

#### Debt

The Facility has no outstanding debt at year-end.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for the year ending December 31, 2008, there appears to be no anticipated changes in operations of funding concerns.

### CONTACTING THE FACILITY FINANCIAL MANAGEMENT

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Director at Ishpeming Area Joint Wastewater Treatment Facility, 700 Sunset Drive, Ishpeming, Michigan 49849.



**Ishpeming Area Joint Wastewater Treatment Facility**  
**Statement of Net Assets**  
**December 31, 2007**

**ASSETS**

**Current assets:**

Cash and equivalents	\$ 17,130
Cash and equivalents - restricted	829,159
Investments - restricted	983,240
Accounts receivable	3,994
Inventory	7,427
Prepaid expense	<u>12,969</u>
Total current assets	<u>1,853,919</u>

**Noncurrent assets**

Capital assets - net	<u>4,938,518</u>
Total noncurrent assets	<u>4,938,518</u>

<b>TOTAL ASSETS</b>	<b><u>6,792,437</u></b>
---------------------	-------------------------

**LIABILITIES**

**Current liabilities:**

Accounts payable	7,766
Accrued payroll	13,579
Deferred revenue - City of Ishpeming	13,407
Deferred revenue - Township of Ishpeming	<u>6,604</u>
Total current liabilities	<u>41,356</u>

**Noncurrent liabilities:**

Compensated absences	<u>70,279</u>
Total noncurrent liabilities	<u>70,279</u>

<b>TOTAL LIABILITIES</b>	<b><u>111,635</u></b>
--------------------------	-----------------------

**NET ASSETS**

Invested in capital assets	4,938,518
Restricted for medical co-pays	
City of Ishpeming	3,666
Township of Ishpeming	1,806
Restricted for sick leave liability	
City of Ishpeming	1,063
Township of Ishpeming	524
Restricted for capital improvement:	
City of Ishpeming	152,005
Township of Ishpeming	74,868
Restricted for equipment replacement:	
City of Ishpeming	1,010,596
Township of Ishpeming	<u>497,756</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$ 6,680,802</u></b>

The Notes to the Financial Statements are an integral part of this statement.

**Ishpeming Area Joint Wastewater Treatment Facility**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the year ended December 31, 2007**

**OPERATING REVENUE:**

Charges for services - City of Ishpeming	\$ 415,629
Charges for services - Township of Ishpeming	211,472
Charges for services - Outside Users	14,620
Charges for services - Lab Services	23,255
Reimbursements	<u>1,916</u>
Total operating revenues	<u>666,892</u>

**OPERATING EXPENSES:**

Interlocal board	3,647
Salaries	215,638
Fringe benefits	142,270
Process chemicals	30,797
Maintenance supplies	8,022
Laboratory	9,042
Professional fees	30,740
Copper testing	40
Vehicles	7,194
Utilities	111,076
Equipment rentals	1,013
Professional development	1,270
Other general expenses	33,271
Safety and health	4,707
Depreciation expense	<u>290,586</u>
Total operating expenses	<u>889,313</u>

OPERATING INCOME (LOSS)	<u>(222,421)</u>
-------------------------	------------------

**NON-OPERATING REVENUES (EXPENSES)**

Charges for capital - City of Ishpeming	48,866
Charges for capital - Township of Ishpeming	22,996
Interest income	116,928
Gain (Loss) on disposal of assets	<u>13,297</u>

TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>202,087</u>
---	----------------

CHANGE IN NET ASSETS	(20,334)
----------------------	----------

TOTAL NET ASSETS - BEGINNING OF YEAR	<u>6,701,136</u>
--------------------------------------	------------------

TOTAL NET ASSETS - END OF YEAR	<u>\$ 6,680,802</u>
--------------------------------	---------------------

The Notes to the Financial Statements are an integral part of this statement.

**Ishpeming Area Joint Wastewater Treatment Facility**  
Statement of Cash Flows  
For the year ended December 31, 2007

Cash flows from operating activities:		
Collections from customers	\$	650,099
Payments to employees and related items		(351,092)
Payments to vendors		<u>(240,325)</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<u>58,682</u>
Cash flows from capital & related financing activities:		
Sale of equipment		22,532
Purchase of equipment		<u>(380,904)</u>
<b>NET CASH PROVIDED (USED) BY CAPITAL &amp; RELATED FINANCING ACTIVITIES</b>		<u>(358,372)</u>
Cash flows from investing activities:		
(Increase) decrease in restricted cash and cash equivalents		(198,942)
(Increase) decrease in unrestricted investments		71,862
Charges for capital reserve		294,867
Interest income		<u>116,928</u>
<b>NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES</b>		<u>284,715</u>
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>(14,975)</b>
Cash, beginning of year		<u>32,105</u>
<b>CASH, END OF YEAR \$</b>		<u><b>17,130</b></u>
RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net operating loss	\$	(222,421)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation expense		290,586
(Increase) decrease in accounts receivable		35,930
(Increase) decrease in inventory		3,142
(Increase) decrease in prepaid expense		4,361
Increase (decrease) in accounts payable		(7,009)
Increase (decrease) in accrued payroll		1,195
Increase (decrease) in deferred revenue		(52,723)
Increase (decrease) in accrued sick leave		<u>5,621</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES \$</b>		<u><b>58,682</b></u>

The Notes to the Financial Statements are an integral part of this statement.

# ISHPEMING AREA JOINT WASTEWATER TREATMENT FACILITY

## NOTES TO FINANCIAL STATEMENTS

December 31, 2007

### NOTE A – DESCRIPTION OF THE REPORTING ENTITY:

#### Organization

The Ishpeming Area Wastewater Treatment System's 1984 contract was entered into during 1984, between the City of Ishpeming (City), the Township of Ishpeming (Township), the County of Marquette, and the Ishpeming Area Joint Wastewater Treatment Board. The contract called for the construction of a wastewater treatment facility. The facility was completed and became operational in 1986. The Board consists of five members. One member is appointed by the Marquette County Health Department. Each member serves a three year term. The Director is hired by the Board. The Board provides wastewater treatment services to the City of Ishpeming and the Township of Ishpeming. The accompanying financial statements include only the Ishpeming Area Joint Wastewater Treatment Facility and do not include any other governmental agencies or departments.

#### Interlocal Agreement

The City of Ishpeming and the Township of Ishpeming entered into an agreement during 1981, for the purpose of creating the Ishpeming Area Joint Wastewater Treatment Board. The Board is to design, construct, operate and maintain a joint wastewater treatment plant and related facilities. Unless otherwise agreed to by the City and Township, the Board shall not levy or assess user charges, sewer rates, or fees directly against individual users of the Wastewater Treatment Facility, but shall instead be reimbursed by contract payments from the City and Township. The City and Township shall be responsible for collecting user charges, sewer rates, fees, penalties, and the like from their respective residents and users of the system.

### NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Ishpeming Area Joint Wastewater Treatment Facility have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Ishpeming Area Joint Wastewater Treatment Facility are described below.

**(1) Fund Accounting** – Ishpeming Area Joint Wastewater Treatment Facility is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Ishpeming Area Joint Wastewater Treatment Facility is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general

public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing

#### **NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

**(2) Basis of Accounting** – Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

Special purpose government financial statements are reported using the current financial resources measurement focus and the accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. For this purpose, the governmental unit considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

**(3) Mission Statement and Nonoperating Revenues and Expenses** – The Facility's primary mission is to provide wastewater treatment services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

#### Cash and Equivalents

For the purposes of the statement of cash flows, the Facility considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

#### Investments

Investments are stated at fair market value.

#### Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

#### Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

**(4) Land, Buildings, and Equipment** – Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Ishpeming Area Joint Wastewater Treatment Facility Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):**

**(5) Board-Designated Assets** – Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

**(6) Use of Estimates** – The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**NOTE C – DEPOSITS AND INVESTMENTS:**Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government from the Statement of Net Assets:

	Primary Government
Unrestricted:	
Cash and cash equivalents	\$17,130
Investments	-
Restricted:	
Cash and cash equivalents	829,159
Investments	983,240
<b>TOTALS</b>	<b>\$1,829,529</b>

*Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the Facility's deposits may not be returned to it. State law does not require and the Facility does not have a deposit policy for custodial credit risk. The carrying amounts of the Facility's deposits with financial institutions were \$846,289 and the bank balance was \$859,493. The bank balance is categorized as follows:

Amount insured by the FDIC with deposits held by the Facility in its name	\$736,187
Amount uninsured by the FDIC or uncollateralized	123,306
	<u>\$859,493</u>

Investments

As of December 31, 2007, the Facility had the following investments.

Investment Type	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
PRIMARY GOVERNMENT:					
Restricted Investments:					
Financing Corp CPN FICO Strips	\$312,413	\$102,175	\$210,238	\$-	\$-
Federal National Mortgage Association					

**NOTE C – DEPOSITS AND INVESTMENTS (Continued):**

Investment Type	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
United States Treasury Bond Stripped Interest Payment	\$98,645	\$-	\$98,645	\$-	\$-
Federal Home Loan Banks Consolidated Bond	100,019	-	45,000	-	55,019
Federal Home Loan Mortgage Corp Medium Term Note	357,056	-	-	150,642	206,414
<b>TOTAL INVESTMENTS</b>	<b>\$983,240</b>	<b>\$112,084</b>	<b>\$353,883</b>	<b>\$255,840</b>	<b>\$261,433</b>

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the Facility's investments. The Facility does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk*

Michigan statutes (Act 196, PA 1997) authorize the Facility to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The Facility has an investment policy that would further limit its investment choices; which limits the Facility from investing in commercial paper. Ratings are not required for the Facility's investment in U.S. Government Agencies or equity-type funds. The Facility's investments are in accordance with statutory authority.

*Concentration of Credit Risk*

The Facility places no limit on the amount the Facility may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

**NOTE D – CAPITAL ASSETS:**

A summary of the capital assets for the Facility is as follows:

	Balance January 1, 2007	Additions	Disposals	Balance December 31, 2007
Wastewater Plant	\$7,905,932	\$76,345	\$-	\$7,982,277
Machinery and Equipment	1,852,131	304,560	(148,248)	2,008,443
Vehicles	170,787	-	-	170,787
<b>Total</b>	<b>9,928,850</b>	<b>380,905</b>	<b>(148,248)</b>	<b>10,161,507</b>
Less accumulated depreciation	(5,071,415)	(290,586)	(139,012)	(5,222,989)

NET CAPITAL ASSETS	<u>\$4,857,435</u>	<u>\$90,319</u>	<u>\$9,236</u>	<u>\$4,938,518</u>
--------------------	--------------------	-----------------	----------------	--------------------

#### **NOTE E – RESTRICTED ASSETS AND NET ASSETS:**

Certain cash and equivalents and investments have been restricted for future equipment replacements, capital improvements and sick leave liability. Similarly, a portion of net assets has been restricted for these items. This indicates that a portion of net assets has been legally segregated for that specific purpose.

#### **NOTE F – DEFERRED REVENUES:**

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

During the year, the Facility bills the City and Township a monthly amount based on budgeted charges for services. At year end, actual charges for services are calculated for each municipality and an adjustment is made to revenue. The difference between calculated revenues and the amounts billed to the municipalities are recorded as deferred revenue. At December 31, 2007, the Board has recorded deferred revenue of \$13,407 and \$6,604 for the City and Township, respectively.

#### **NOTE G – ACCRUED SICK LEAVE:**

The Facility has a policy of allowing full-time employees to accumulate sick leave benefits. Employees may accumulate a maximum of one hundred days. One sick leave day is allowed for each accumulated month of service. Accrued sick leave payable as of December 31, 2007 was \$70,279 and was funded with \$71,866 of investments that are segregated for the payment of sick leave benefits.

<u>Balance</u> <u>12/31/2006</u>	<u>Change</u>	<u>Balance</u> <u>12/31/2007</u>
<u>\$64,658</u>	<u>\$5,621</u>	<u>\$70,279</u>

#### **NOTE H – DEFINED BENEFIT PENSION PLAN:**

The following information is based upon the latest available actuarial valuation (as of December 31, 2006).

##### Plan Description

The Facility contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative Agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

The qualified employees of the Facility are eligible to participate in the System. Benefits vest after ten years of service. Facility employees who retire at or after the age of 55 with 25 years of



credited service are entitled to an annual retirement benefit, payable monthly for life. **NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):**

employees receive a monthly payment equal to 4.00 percent of final average compensation, with a maximum benefit of 80% of final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and Facility contracts.

#### Funding Policy

The Facility is required to contribute the amounts necessary to fund the System, using the actuarial basis specified by statute.

#### Annual Pension Cost

For the year ended December 31, 2007, the Facility has required annual pension cost of \$23,040. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period of 30 years.

Three year trend information as of December 31<sup>st</sup> follows:

	2004	2005	2006
Annual Pension Cost (APC)	\$26,858	\$28,977	\$28,977
Percentage of APC Contributed	100%	100%	100%
Net Pension Obligation	-	-	-
Actuarial Value of Assets	408,103	460,490	460,490
Actuarial Accrued Liability (AAL)	497,056	561,395	561,395
Unfunded AAL (UAAL)	88,953	100,905	100,905
Funded Ratio	82%	82%	82%
Covered Payroll	201,563	211,971	211,971
UAAL as a Percentage of Covered Payroll	44%	48%	39%

#### **NOTE I – RISK MANAGEMENT:**

The Facility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Facility maintains insurance coverage through the Hannula Insurance Agency which covers each of those risks of loss. Management believes such Coverage is sufficient to preclude any significant uninsured losses to the Facility. Settled claims have not exceeded this coverage in any of the past three years.

#### **NOTE J – DEFERRED COMPENSATION PLAN:**

The Facility offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The plans are available to all Facility employees and permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

**NOTE J – DEFERRED COMPENSATION PLAN (Continued):**

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the Facility's general creditors. Therefore, the Plan is not presented in these financial statements.

## OTHER FINANCIAL INFORMATION

Ishpeming Area Joint Wastewater Treatment Facility  
Schedule of Changes in Retained Earnings and Contributed Capital  
For the year ended December 31, 2007

	Investment In Capital Assets Federal	Investment In Capital Assets State	Investment In Capital Assets City	Investment In Capital Assets Township	Restricted Medical Co-Pay Reserve City	Restricted Medical Co-Pay Reserve Township	Restricted Sick Leave Reserve City	Restricted Sick Leave Reserve Township	Restricted Capital Improvement City	Restricted Capital Improvement Township	Restricted Equipment Replacement City	Restricted Equipment Replacement Township	Unrestricted City	Unrestricted Township	Totals
Balance - Beginning of Year	\$ 2,773,291	\$ 183,123	\$ 1,273,684	\$ 627,337	\$ -	\$ -	\$ 1,842	\$ 907	\$ 109,929	\$ 54,144	\$ 1,123,509	\$ 553,370	\$ -	\$ -	\$ 6,701,136
Net Income (Loss)	-	-	-	-	-	-	-	-	-	-	-	-	(13,624)	(6,710)	(20,334)
Depreciation	(143,698)	(9,489)	(92,058)	(45,341)	-	-	-	-	-	-	-	-	194,693	95,893	-
Equipment Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Equipment Replacement	-	-	255,206	125,698	-	-	-	-	-	-	(255,206)	(125,698)	-	-	-
Unrestricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Book Gain (Loss) on Asset Disposal	-	-	(6,187)	(3,048)	-	-	-	-	-	-	-	-	6,187	3,048	-
Gross Proceeds from the Sale of Assets	-	-	-	-	-	-	-	-	-	-	15,096	7,436	(15,096)	(7,436)	-
Depreciation on Equipment and Vehicles	-	-	-	-	-	-	-	-	-	-	61,773	30,426	(61,773)	(30,426)	-
Interest on Restricted Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Medical Co-Pay Reserve	-	-	-	-	30	15	-	-	-	-	-	-	(30)	(15)	-
Sick Leave Reserve	-	-	-	-	-	-	2,987	1,472	-	-	-	-	(2,987)	(1,472)	-
Capital Improvement	-	-	-	-	-	-	-	-	1,472	725	-	-	(1,472)	(725)	-
Equipment Replacement	-	-	-	-	-	-	-	-	-	-	73,117	36,013	(73,117)	(36,013)	-
Investment Fees	-	-	-	-	-	-	-	-	-	-	(50)	(25)	50	25	-
Restricted Capital/Equipment Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement	-	-	-	-	-	-	-	-	505	249	-	-	(505)	(249)	-
Equipment Replacement	-	-	-	-	-	-	-	-	-	-	505	249	(505)	(249)	-
City and Township Capital Charges	-	-	-	-	3,618	1,782	-	-	44,530	21,932	-	-	(48,148)	(23,714)	-
O & M Expense Paid From Capital	-	-	-	-	-	-	-	-	(8,107)	(3,993)	-	-	8,107	3,993	-
Change in Compensated Absences	-	-	-	-	-	-	(3,766)	(1,855)	-	-	-	-	3,766	1,855	-
Funding from O & M	-	-	-	-	-	-	-	-	3,618	1,782	-	-	(3,618)	(1,782)	-
Over (Under) funding of Investments	-	-	-	-	18	9	-	-	58	29	(8,148)	(4,015)	8,072	3,977	-
Net Change	(143,698)	(9,489)	156,961	77,309	3,666	1,806	(779)	(383)	42,076	20,724	(112,913)	(55,614)	-	-	(20,334)
Balance - End of Year	<u>\$ 2,629,593</u>	<u>\$ 173,634</u>	<u>\$ 1,430,645</u>	<u>\$ 704,646</u>	<u>\$ 3,666</u>	<u>\$ 1,806</u>	<u>\$ 1,063</u>	<u>\$ 524</u>	<u>\$ 152,005</u>	<u>\$ 74,868</u>	<u>\$ 1,010,596</u>	<u>\$ 497,756</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,680,802</u>

**Ishpeming Area Joint Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
INTERLOCAL BOARD:			
Board compensation	\$ 2,760	\$ 2,760	\$ -
FICA	200	230	(30)
Mileage and expense	<u>700</u>	<u>657</u>	<u>43</u>
Total interlocal board	<u>3,660</u>	<u>3,647</u>	<u>13</u>
SALARIES:			
Preliminary treatment	8,585	8,582	3
Grit removal	2,300	2,191	109
Secondary treatment	1,600	1,595	5
Chlorination/dechlorination	600	530	70
Sludge handling	350	312	38
Belt press	13,650	13,621	29
Sludge hauling	3,400	3,271	129
Laboratory ww	34,675	34,673	2
Laboratory water	500	379	121
Grounds maintenance	9,110	9,105	5
Buildings maintenance	19,000	18,923	77
Equipment maintenance	13,800	13,785	15
Vehicle maintenance	2,300	2,233	67
Plant operations	49,465	49,327	138
Administration	47,223	47,205	18
Training	2,000	1,572	428
Safety training	600	180	420
Weekend operator	<u>8,160</u>	<u>8,154</u>	<u>6</u>
Total salaries	<u>217,318</u>	<u>215,638</u>	<u>1,680</u>
FRINGE BENEFITS:			
Retirement	25,400	25,008	392
Health insurance	54,750	54,692	58
FICA	19,350	19,231	119
Vacation	17,350	17,305	45
Sick leave	13,850	13,843	7
Holidays	9,150	9,124	26
Personal leave days	<u>3,070</u>	<u>3,067</u>	<u>3</u>
Total fringe benefits	<u>142,920</u>	<u>142,270</u>	<u>650</u>
PROCESS CHEMICALS:			
Ferrous chloride	10,165	10,147	18
Polymer - press	10,085	10,081	4
Chlorine	8,500	8,495	5
Sulfur dioxide	1,950	1,904	46

**Ishpeming Area Joint Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
PROCESS CHEMICALS, continued			
Odor control	\$ 275	\$ 170	\$ 105
Total process chemicals	<u>30,975</u>	<u>30,797</u>	<u>178</u>
MAINTENANCE SUPPLIES:			
Influent pumps raw	60	52	8
Comminuter	200	198	2
Grit equipment (removal)	100	47	53
Oxidation ditches	100	76	24
Clarifiers	20	13	7
Aerobic digestors	30	23	7
DAF thickeners	20	10	10
RAS pumps	100	9	91
Chemical feed equipment (press)	700	673	27
Chemical feed equipment (dechlor)	50	31	19
Chemical feed equipment (p removal)	50	7	43
Belt presses	100	57	43
Laboratory and samplers	100	98	2
Buildings	2,610	2,610	-
Grounds	1,000	942	58
General workshop and tools	1,050	1,049	1
Generator	1,665	1,613	52
General maintenance	<u>600</u>	<u>514</u>	<u>86</u>
Total maintenance supplies	<u>8,555</u>	<u>8,022</u>	<u>533</u>
LABORATORY:			
WW reagents	1,950	1,928	22
WW equipment	170	152	18
WW disposable equipment	1,250	1,211	39
Water certification/analysis	2,300	2,294	6
Water reagents	2,580	2,555	25
WW outside testing soil/sludge	<u>910</u>	<u>902</u>	<u>8</u>
Total laboratory	<u>9,160</u>	<u>9,042</u>	<u>118</u>
PROFESSIONAL FEES:			
Engineering fees	-	12,100	(12,100)
Certified public accountant	595	593	2
Grit disposal fees	6,250	6,250	-
Certified accountant	3,200	3,200	-

**Ishpeming Area Joint Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
PROFESSIONAL FEES, continued			
Attorney fees	\$ 1,320	\$ 1,320	\$ -
Electrical	45	-	45
Sludge hauling	275	274	1
Mercury	1,450	1,441	9
Other metals	<u>5,562</u>	<u>5,562</u>	-
Total professional fees	<u>18,697</u>	<u>30,740</u>	<u>(12,043)</u>
COPPER TESTING	<u>200</u>	<u>40</u>	<u>160</u>
VEHICLES:			
GMC fuel	660	657	3
GMC maintenance	650	579	71
Tanker fuel	1,800	1,771	29
Tanker maintenance	1,750	1,732	18
Front end loader fuel	300	240	60
Front end loader maintenance	250	217	33
Vehicles misc	300	294	6
4x4 fuel	1,030	1,029	1
4x4 maintenance	<u>700</u>	<u>675</u>	<u>25</u>
Total vehicles	<u>7,440</u>	<u>7,194</u>	<u>246</u>
UTILITIES:			
Telephone	1,200	1,199	1
Electricity (plant)	94,805	94,801	4
Electricity (metering station)	550	532	18
Natural gas	13,750	13,412	338
Water/landfill/sewer	<u>1,200</u>	<u>1,132</u>	<u>68</u>
Total utilities	<u>111,505</u>	<u>111,076</u>	<u>429</u>
EQUIPMENT RENTAL:			
Other (pager)	<u>1,050</u>	<u>1,013</u>	<u>37</u>
Total equipment rental	<u>1,050</u>	<u>1,013</u>	<u>37</u>
PROFESSIONAL DEVELOPMENT:			
Memberships	470	470	-
Conferences	<u>800</u>	<u>800</u>	-
Total professional development	<u>1,270</u>	<u>1,270</u>	-
OTHER GENERAL EXPENSES:			
Office supplies	2,175	2,174	1
Computer/software	2,015	2,015	-
Insurance	23,850	23,818	32
Worker's compensation	<u>5,100</u>	<u>5,086</u>	<u>14</u>

**Ishpeming Area Joint Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OTHER GENERAL EXPENSES, continued			
Advertising	\$ 200	\$ 178	\$ 22
Total other general expenses	<u>33,340</u>	<u>33,271</u>	<u>69</u>
SAFETY AND HEALTH:			
Safety equipment	3,350	3,295	55
Employees physicals	510	506	4
Apparel	<u>1,000</u>	<u>906</u>	<u>94</u>
Total safety and health	<u>4,860</u>	<u>4,707</u>	<u>153</u>
TOTAL OPERATING EXPENSES, net of depreciation	<u>\$ 590,950</u>	<u>\$ 598,727</u>	<u>(7,777)</u>



## COMPLIANCE SUPPLEMENTS



**Anderson, Tackman & Company, PLC**  
Certified Public Accountants  
Marquette, Michigan 906-225-1166  
Fax – 1-906-225-1714

**Partners**

John W. Blemberg, CPA	Robert J. Downs, CPA, CVA	Daniel E. Bianchi, CPA
-----------------------	---------------------------	------------------------

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Authority Board  
Ishpeming Area Joint Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

We have audited the financial statements of the business-type activities and major fund of the Ishpeming Area Joint Wastewater Treatment Facility as of and for the year ended December 31, 2007, which collectively comprise the basic financial statements and have issued our report thereon dated March 14, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ishpeming Area Joint Wastewater Treatment Facility's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ishpeming Area Joint Wastewater Treatment Facility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ishpeming Area Joint Wastewater Treatment Facility's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Ishpeming Area Joint Wastewater Treatment Facility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Ishpeming Area Joint Wastewater Treatment Facility's financial statements that is more than inconsequential will not be prevented or detected by the Ishpeming Area Joint Wastewater Treatment Facility's internal control. We consider the deficiencies described in a separate letter to management dated March 14, 2008 as item 07-01 to be significant deficiencies in internal control over financial reporting.

Authority Board  
Ishpeming Area Joint Wastewater Treatment Facility

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Ishpeming Area Joint Wastewater Treatment Facility's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ishpeming Area Joint Wastewater Treatment Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the audit committee, the Authority Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

March 14, 2008



## Anderson, Tackman & Company, PLC

Certified Public Accountants

Marquette, Michigan 906-225-1166

Fax – 1-906-225-1714

### Partners

John W. Blemberg, CPA

Robert J. Downs, CPA, CVA

Daniel E. Bianchi, CPA

### *Ishpeming Area Joint Wastewater Treatment Facility*

#### *Report to Management Letter*

*For the Year Ended December 31, 2007*

Ishpeming Area Joint Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the business-type activities and the major fund of the Ishpeming Area Joint Wastewater Treatment Facility as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Ishpeming Area Joint Wastewater Treatment Facility's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ishpeming Area Joint Wastewater Treatment Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Ishpeming Area Joint Wastewater Treatment Facility's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, we identified the following deficiencies in internal control that we consider to be significant deficiencies.

#### **07-01 - SEGREGATION OF DUTIES**

**Condition/Criteria:** The accounting staff of the Ishpeming Area Joint Wastewater Treatment Facility is made up of one individual, which does not allow for segregation of duties.

**Effect:** Because of the limited staff, there is an increased chance that misstatements in financial statements would not be prevented or detected on a timely basis.

**Cause of Condition:** The size of the organization's accounting staff precludes certain internal design controls that would be preferred in the office if staffing were large enough to provide optimum segregation of duties.

**Recommendation:** Smaller organizations, due to limited resources, are generally more sensitive to the cost of implementing these design controls and often have compensating controls to partially mitigate this deficiency.

**Management Response - Corrective Action Plan:**

- Contact Person(s) Responsible for Correction:
  - Deborah Pellow, Director
- Corrective Action Planned:
  - The Ishpeming Area Joint Wastewater Treatment Facility Board currently closely monitors all payments, signs all checks and reviews the financial statements on a monthly basis.
- Anticipated Completion Date:
  - Not applicable

This communication is intended solely for the information and use of the management, audit committee, Transit Authority Board, and others within the organization, and is not intended to be and should not be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Ishpeming Area Joint Wastewater Treatment Facility's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

March 14, 2008



## Anderson, Tackman & Company, PLC

Certified Public Accountants  
Marquette, Michigan 906-225-1166  
Fax – 1-906-225-1714

### Partners

John W. Blemberg, CPA	Robert J. Downs, CPA, CVA	Daniel E. Bianchi, CPA
-----------------------	---------------------------	------------------------

March 14, 2008

Authority Board  
Ishpeming Area Joint Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

We have audited the financial statements of the business-type activities and the aggregate remaining fund information of Ishpeming Area Joint Wastewater Treatment Facility for the year ended year, and have issued our report thereon dated March 14, 2008. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

### Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on March 10, 2008.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Ishpeming Area Joint Wastewater Treatment Facility are described in the Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Authority Board  
Ishpeming Area Joint Wastewater Treatment Facility

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated March 14, 2008.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Authority Board and management of Ishpeming Area Joint Wastewater Treatment Facility and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants